AN AMERICAN BANKER SPECIAL REPORT

# Shrewd Lending Pays Off as Some Banks Weather Farm Crisis

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Laurens State Bank had a profit of $700,000.

However, about $300,000 worth of farm and agriculture-related loans are likely to be charged off by the end of the year. Still, the bank anticipates having enough income to strengthen its capital base by up to $500,000.

The Laurens State Bank and Mr. Pannkuk are examples of how a bank with shrewd and prudent management can do well, even in a crisis. And it has been more than a generation since a financial crisis the magnitude of the current one has struck rural Iowa.

Photo by Richard Ringer

**OVERTAKEN BY EVENTS:** James O'Neill, president of First Trust & Savings Bank, Armstrong, Iowa, 'never ever envisioned a time when it [the agricultural economy] would be this tough.' Loan losses at his bank may skyrocket this year.

### A Bank Examiner 50 Years Ago

Mr. Pannkuk's hard-nosed lending policy is a throwback to what he learned more than five decades ago while working as a bank examiner for the state of Iowa. For seven years in the 1920s and 1930s, Mr. Pannkuk crisscrossed Iowa, closing insolvent banks. On Dec. 20, 1932, he arrived in Laurens to close and liquidate the two banks that were here then.

Afterward, he stayed in Laurens and opened another, the Laurens State Bank.

At 81, Mr. Pannkuk, who wears a pencil-thin mustache, still goes to work at the bank each day. He takes part in meetings of the loan committee, which daily reviews the loan applications made the previous day.

And despite his age, Mr. Pannkuk has embraced the changes that the bank has needed to make, says Richard DeYoung, the bank's executive vice president and also Mr. Pannkuk's son-in-law.

It is Mr. Pannkuk whom some bankers mention when they talk about the skill, sensitivity, and ability that helps many Iowa bankers get through the farm crisis. Many of Iowa's 634 banks are located in small, rural towns whose lifeblood is agriculture.

The Iowa bankers are older than in other states. The average age of senior management at Iowa's banks is the highest in the country, says Randy P. Steig, executive director of the Iowa Bankers Association. Nonetheless, Mr. Steig says, the bankers are neither set in their ways nor resistant to necessary changes.

"Bankers are forced to change whether they want to or not," he says.

Laurens is located in Pocahontas County in northwest Iowa, an area blessed with rich, black topsoil several feet deep. It is some of the best soil in Iowa, or for that matter in the Midwest.

The population of Laurens has grown to about 1,800. And like many towns throughout Iowa, it has its share of problems resulting from the sagging agricultural economy. For example, a variety store directly across from the Laurens State Bank on South Third Street closed three months ago, partly because of a lack of business from farmers.

In fact, says Kenneth Stone, an economist at Iowa State University, Laurens has some of the characteristics that make small, rural towns vulnerable to the crosscurrents resulting from the malaise of the farm economy.

However, the shrewd strategies and philosophies of bankers such as Mr. Pannkuk and others in Pocahontas County are helping towns like Laurens do better than many others.

Part of the reason for the good track record of the Laurens State Bank and the town itself is that the bank officers know the farm borrowers. Mr. DeYoung, the executive vice president, was born and raised in Laurens. And Mr. Pannkuk has lived there since before the bank's charter was issued 50 years ago.

Many of the bank's first customers had done business with the two banks Mr. Pannkuk helped liquidate in the 1930s. "Now," he says, "their offspring are coming to us."

"We know those people," says the spry Mr. Pannkuk. "That's a big advantage in running the bank." And he adds: "The type of people we got are anxious to pay their debts. Because of that, you've got to help keep them going."

### Knowing Customers Is No Guarantee

Still, bankers caution, knowing farm customers is no guarantee that they will repay their debts. A farm borrower may not always act in the same manner when confronting a financial crisis as he would under normal conditions, bankers say.

"There's a lot more to be saved [by helping the farm borrowers] than by cutting them off," says Mr. DeYoung. "Any good town has a good bank."

And, he adds, "if I'm going to prosper, the town has to prosper."

In north central Iowa, near the border with Minnesota, is Armstrong. The town, about 80 miles northeast of Laurens, is not unlike many other rural Iowa towns in many respects. The grain elevator and farmers' cooperative are in the center of town. There is a Casey's General Store, part of a chain of look-alike convenience stores that seem to pop up in any Iowa town, no matter how many people live there.

About 1,100 people call Armstrong their home, and at Casey's the folks can buy everything from gasoline to milk to toothpaste to dog food.

At the cafe, a roll-and-coffee breakfast costs 80 cents. There is no charge for coffee refills. The waitress is prompt and friendly, and she does not grumble if no tip is left. Everyone knows that money is tight in farm towns.

Armstrong has one bank, the First Trust & Savings Bank, which is a family affair of sorts. The president is James M. O'Neill, 53. His younger brother, Jean, is executive vice president. Their father, Fred, spent part of his career at First Trust & Savings Bank, having arrived there during the difficult days of the Depression in 1932.

The bank was chartered about five years earlier. Fred O'Neill was asked by Iowa officials to manage the bank. He earned $70 a week for his efforts. By 1935, the bank had assets of $150,000 and revenues of $8,000.

Today, the bank has assets of $22.5 million, about 65% of that in agriculture-related loans. Earnings have been good in recent years, says Mr. O'Neill, the president. But with mounting loan losses, he says, he expects the bank to be lucky to turn a profit this year.

James O'Neill will not speculate on just how much the loan losses may total, but he says there is the possibility that it will be in the hundreds of thousands of dollars. From the late 1950s to the mid-1970s, says Mr. O'Neill, loan losses averaged only $750 annually.

He says he "never ever envisioned a time when it [the agricultural economy] would be this tough. Nobody has had to see anything like this. He would have to be a leftover from the last Depression" to find any comparisons.

Mr. O'Neill is the third generation of his family to live in Armstrong, and he is determined to help the town and the farm borrowers overcome the persistent financial problems.

"In a little town," especially a one-bank town such as Armstrong, says Mr.

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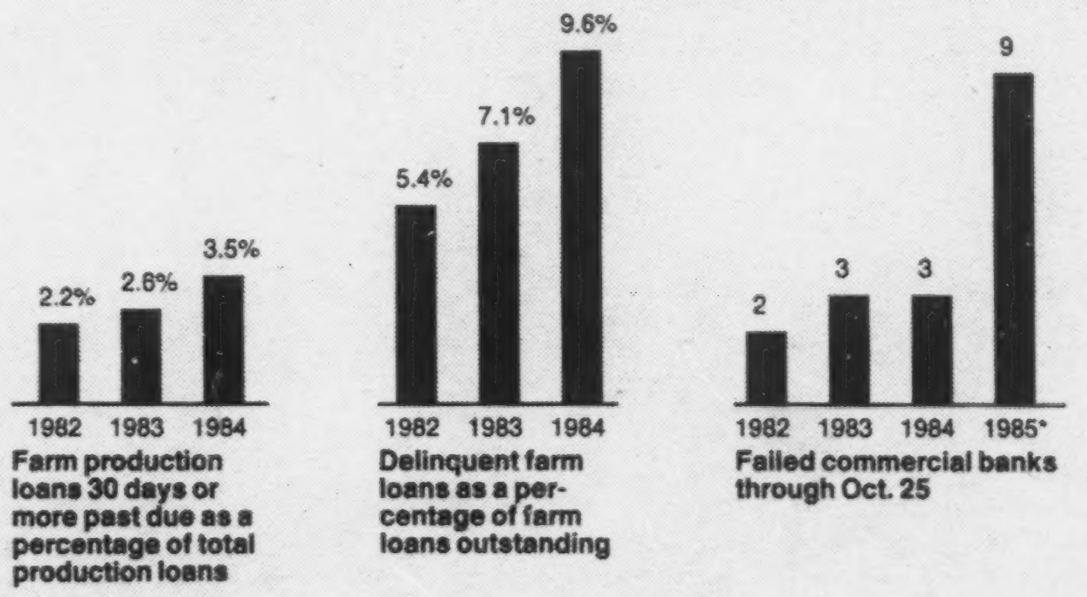
## Trouble in Iowa

### Past-Due Debt Is Rising... More Banks Are Failing... and Farmers Are Losing Their Land




| | |
|---|---|
| Foreclosures | 812 |
| Farms Acquired | 210 |
| Farms Sold | 56 |

Federal Land Banks of Omaha, Jan. 1 through Aug. 31

Sources: Federal Reserve Board, Iowa Department of Banking, Iowa Department of Agriculture

## Alexander . . .

**Continued from Page 3**

recalled his ability "to stay calm in a storm, all the time puffing a pipe and studying the situation before taking action — which he could do rapidly."

Robert W. Crawford, executive vice president of the Missouri Bankers Association, said the industry had "lost a Roman" in Mr. Alexander, who was himself president of that state banking group in 1959-1960. Mr. Crawford praised Mr. Alexander, calling him a statesman, strong in organzational skills, and fiercely competitive. But his style, Mr. Crawford said, was generally subdued.

In honor of his retirement from the ABA earlier this year, the Missouri Bankers Association initiated a W.W. Alexander memorial scholarship, which will provide financial aid to students of finance.

Over the years Mr. Alexander had maintained his close ties with Missouri, traveling frequently to Missouri Bankers Association gatherings, to visit his mother in Trenton, and to keep his affairs in order as chairman of the Trenton Trust Co. and publisher of his hometown newspaper, the *Trenton Republican-Times*.

During his 16 years as executive vice president of the ABA, Mr. Alexander was best known for consolidating and moving the trade association from New York to Washington in 1971, and making an institution of the ABA's "banking leadership conference" — a membership forum for consensus-building that Mr. Alexander used to establish policies.

Most recently, Mr. Alexander lived in Reston, Va., with what he called his "second family," consisting of his wife, Sandy, and two young daughters, Meg and Kay. He also had three children by a previous marriage.

A memorial service will be held Wednesday in Reston, with funeral services scheduled for Friday in Trenton, Mo. ■

## Farm . . .

**Continued from Page 32**

O'Neill, "the bank is the hub of everything. More or less, everything is going to depend on what the bank can or can't do."

The First Trust & Savings Bank is doing what it can to help. While the bank does primarily agriculture-related lending, First Trust & Savings also has boosted the community by financing some manufacturing businesses.

The bank helped finance the Armstrong Rim & Wheel Manufacturing Co. when it opened in 1968. It took several years for the company to turn a profit, says Mr. O'Neill. But, in 1974, the company modernized its facilities, which are located just outside Armstrong. Since then, business has expanded at such a pace that the facility has grown to four times its original size.

The company is now one of the largest rim and wheel manufacturers in the country, employing about 80 people, and creating another dozen or so jobs in support areas. In all, those jobs support about 20% of Armstrong's total population.

The jobs created by the company, says Mr. O'Neill, are a big plus in the economically hard-hit agricultural area. As always in lending, Mr. O'Neill says, the bank took a risk in financing the company. But the bank was prudent in its lending, he adds, and the town has benefited.

Despite being located in a rural area, Armstrong has a quality of life that many other rural Iowa towns probably envy. The town has a new community golf course, two supper clubs, and new residential areas that have sprouted near the corn and soybean fields. And the town also has a doctor, a dentist, and an optometrist — professionals not always found practicing in the same rural town.

"A lot of what Armstrong has," says Mr. O'Neill, "is because we've had the industry.

"It helps the community immensely to have those jobs."

**Next: One farmer's financial problems.**

## Pru-Bache . . .

**Continued from Page 3**

retirement plans known. Despite giving up their positions, both will remain active with the firm.

Pru-Bache Securities posted a $113 million loss in 1984, which is believed to be the largest loss ever reported by a full-service securities firm. Despite the shortfall, officials from the parent firm, Prudential Insurance Company of America, have voiced their support for Pru-Bache management and repeatedly denied rumors that they were considering selling the unit.

Mr. Sherrill will be acting head of the company's new merchant banking group, which will serve as the umbrella group for corporate finance, trade finance, interest-rate swaps, and PruCapital, which provides financing services for public utilities and midsize industrial companies. Peter A. Bernard was named vice chairman of PruCapital and will report to Rodney Reyolds, chairman and CEO of PruCapital.

Greg Smith, an executive vice president in charge of research and institutional equity sales, will run P-B Investment Management Group, another arm of the merchant banking group. ■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**Legal Notice**

DEA Case No. CJ-85-0156(12JFK): Notice is hereby given that on 7/30/85 the following items were seized at LaGuardia Airport,Qns, NY for violation of 21 USC 881: $50,000. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $2500., in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/4/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

DEA Case No. CJ-84-0091: Notice is hereby given that on 8/14/85 the following items were seized at Van Brunt & Congress Streets, Brooklyn, NY for violation of 21 USC 881: 1979 Datsun 200 SC Hatchback VIN: 165180R13. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $310., in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

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every Wednesday
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**American Banker**

**Legal Notice**

DEA Case No. CJ-85-0166: Notice is hereby given that on 9/14/85 the following items were seized at LaGuardia Airport, Queens, New York for violation of 21 USC 881: $24,020.00. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $2,402.00, in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

DEA Case No. CJ-85-0164: Notice is hereby given that on 8/19/85 the following items were seized at LaGuardia Airport, Queens, New York for violation of 21 USC 881: $74,000.00. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $2,500.00., in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

**Auction Notices**

Sounio Service Station will sell 11/24/85 at 9 AM at 23-34 42nd Street, Astoria, NY 1976 Mercury 6E38F521352 Re: R. Schoenfeld. Published 10/29 & 11/5/85.

**Legal Notice**

DEA Case No. CJ-85-0153(12): Notice is hereby given that on 7/26/85 the following items were seized at John F. Kennedy Airport, Jamaica, New York for violation of 21 USC 881: $20,000. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $2,000.00., in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

DEA Case No. CJ-85-0157: Notice is hereby given that on 7/31/85 the following items were seized at LaGuardia Airport, Queens, New York for violation of 21 USC 881: $18,220.00 U.S. Currency. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $1,822.00, in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

**Auction Notices**

DEFAULT IN A Security Agreement Made By East Coast Communications Inc. To Mona Horowitz. Sale, Oct. 30, 1985 At 11 A.M. At 901 Huguenot Ave., Staten Island. N.Y. R/T/I In & To Chatt., Fixt. & Equip. Subject to Prior Liens & S/A. Secured Party Reserves The Right To Bid. LEO FRANK INC.

**Legal Notice**

DEA Case No. CJ-85-0119: Notice is hereby given that on 5/18/85 the following items were seized at J.F.K. Airport, Jamaica, New York for violation of 21 USC 881: $1,100. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $250.00, in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

DEA Case No. CJ-85-0047: Notice is hereby given that on 1/3/85 the following items were seized at Air Lingus Cargo Bldg., JFK Airport, Jamaica, New York for violation of 21 USC 881: 1979 Chevrolet Impala VIN: 1T19M9B524677. Any person desiring to place the matter in the United States District Court in order to contest the probable cause for this seizure must file with the Special Agent-In-Charge, Drug Enforcement Administration, 555 West 57th Street, Suite 1900, New York, New York 10019, a claim and cost bond of $360., in the form of a cashier's check or certified check made payable to the U.S. Dept. of Justice, or approved surety on or before 11/11/85. An indigency petition may be filed in lieu of a cost bond. Otherwise, the property will be administratively forfeited pursuant to 19 USC 1608 and will be disposed of according to law. Interested parties may file petition for remission or mitigation of forfeiture with the Special Agent-In-Charge pursuant to 19 USC 1618 and 21 CFJR 1316.71-1316.81 without filing a cost bond.

Michael J. Agnese
Associate Special Agent in Charge

**Auction Notices**

FRED REISNER, INC, Auctr Lic #732421 Sells Nov. 7, 1985 at 10 AM at 4332 Industrial Pl, Island Pk, LI, NY 1978 Chev 1Q87L8N502065 Acct Raymond R. Roth; 11 AM at 1740 Atlantic Ave., Bklyn, NY 1969 Buick 494879H911388 Acct James C. Howard; Published Oct. 22,29, 1985.

**Partnership Notices**

HOBES SOUND CITRUS LIMITED PARTNERSHIP, principal office c/o Worms & Co. Inc., 900 Third Ave., NY, NY. Substance of Certificate of Limited Partnership filed in NY County Clerk's office 10/17/85. Business: acquire, own, operate etc. certain citrus properties in Martin Co., FL. and activities related thereto. Term: until Dec. 31, 2010 unless earlier terminated per Agreement. General Partner (GP): Worms Citrus Limited Partnership, 900 Third Ave., NY, NY. Limited Partner (LP): William E. Huebner, Smith Cove Mews, Unit #7, 603 Steamboat Rd., Greenwich, CT, cash contribution $100., share of profits 99%. No further contribution from LP. No time agreed upon for return of LP's contribution. LP has no right to substitute assignee as sub. LP. GP may admit additional LPs. No priority among LPs as to contributions or compensation by way of income. Ptshp terminates upon withdrawal, liquidation or bankruptcy of GP. LP has no right to demand and receive property other than cash in return for contribution.

OFFICE ALTERNATIVES - NEW YORK, L.P., 26 Broadway, NYC. Substance of Certificate of Limited Partnership filed in New York County Clerk's Office October 18, 1985. Business: Operating an excecutive office center and other business activities incident thereto. General Partners: Office Alternatives, Inc, 418 Valley Rd, Upper Montclair, NJ; L. William Berger, 418 Valley Rd, Upper Montclair, NJ. Limited Partner and Cash Contribution: Susan O. Soss, 418 Valley Rd, Upper Montclair, NJ, $500. Partnership to continue until Dec 21, 2020 unless sooner terminated. No additional contributions to be made. No time agreed upon for return of contributions. The partners share of profits shall be in proportion their contribution bears to total contributions. No LP shall assign their interest without consent of GPs. Additional LPs may be admitted. No priority among LPs. On death, retirment or insanity of a GP, remaining GP may continue the business. No LP shall demand property other than cash in return for contribution.

**Foundation Notice**

NOTICE
The annual report of **THE ZEITZ FOUNDATION, INC.** for the fiscal year ended June 30, 1985 is available at its principal office located at 270-18N Grand Central Parkway, Floral Park, New York 11005, (718) 229-8284, for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Robert Z. Rosenthal.